

WASHINGTON STATE DEPARTMENT OF REVENUE

SPECIAL NOTICE

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Originally Published January 30, 1998—Reissued April 2002

Tax Due on Commercial Use of Molds by Orthotic and Prosthetic Manufacturers

The Department of Revenue routinely reviews the tax returns and reporting practices of businesses to ensure proper reporting. When an area of concern is discovered, the Department attempts to notify affected businesses to inform them of the potential problems. This allows taxpayers to immediately correct any reporting errors voluntarily and thus avoid penalties and interest which might occur if the errors are found later through an audit. During a recent review it was determined that many businesses engaged in the fitting, manufacturing and sale of orthotic and prosthetic devices have not been reporting manufacturing business and occupation tax (B&O) and use tax on the commercial use of molds used in the manufacturing process.

Generally, in the intermediate steps of manufacturing orthoses and prostheses, two different types of molds are created and used in the manufacturing process. These molds, typically referred to as negative and positive molds, are used to create the socket for the orthoses and prostheses. After the socket has been created, the molds are disposed of or destroyed in the removal process. Since the molds have been manufactured for commercial use and are not a component part of the final product, the manufacturing B&O and use tax are due.

The Manufacturing B&O tax and the use tax are based on the value of the article manufactured. As discussed in WAC 458-20-112, the value is determined by:

- (a) the selling price of the article of similar products of like quality, quantity and character; or
- (b) the value of the labor, materials and overhead incorporated into the article when the article is not offered for sale. Overhead costs include items such as the wages for employees involved in the production of the molds, administrative costs, and other expenses like depreciation of computer equipment.

If your business manufactures molds for the production of orthoses and prostheses, please check your records to see if you have been paying the manufacturing B&O and use tax. Amended tax returns should be completed for periods the taxes have not been paid, for the current year and the prior four years. If found through an audit, unreported B&O tax and use tax amounts plus interest would be assessed.

Thank you for taking the time to review your records. If you need assistance or have questions, please contact us at 1-800-647-7706.

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